

## Message Text

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ACTION EB-11

INFO OCT-01 EA-11 ISO-00 SP-03 AID-20 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

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E.O. 11652: NA

TAGS: EIND ETRD JA

SUBJ: JAPAN'S STEEL INDUSTRY PROSPECTS

SUMMARY: ECONCOM/MIN DISCUSSED PROSPECTS FOR JAPAN'S STEEL INDUSTRY WITH INAYAMA, CHAIRMAN, NIPPON STEEL, ON APR 11. INAYAMA EXPECTS DOMESTIC PRICE INCREASE OF 20 PERCENT IN STEEL PRICES FOLLOWING UPPER HOUSE ELECTION, WITH NO INCREASE IN EXPORT PRICES. HE BELIEVES JAPANESE STEEL WILL STILL BE COMPETITIVE, UT IS CONCERNED OVER IMPACT ON JAPAN'S HEAVY MACHINERY INDUSTRY OF INCREASED STEEL COSTS. HE SEES PRODUCTION IN JFY 1974 DOWN SLIGHTLY FROM JFY 1973 LEVELS. HE DOES NOT SEE INCREASE IN STEEL EXPORTS TO US TO LEVEL THAT WOULD BE OF CONCERN TO USG. END SUMMARY.

1. IN LENGTHY FAREWELL CALL ON INAYAMA ON APR 11, ECONCOM/MIN REVIEWED PROSPECTS FOR JAPANESE STEEL INDUSTRY FOR COMING YEAR. INAYAMA STATED THAT, DUE TO INCREASED RAW MATERIAL COSTS, WHICH HE ESTIMATES HAVE ADDED MORE THAN 8,000 YEN TO AVERAGE PRODUCTION COST FOR A TON OF STEEL, PLUS 27.5 PERCENT WAGE INCREASE JUST GRANTED  
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STEEL WORKERS, INDUSTRY WILL REQUIRE A 20 PERCENT IN-

CREASE IN DOMESTIC PRICE OF STEEL. AVERAGE PRICE NOW 50,000 YEN PER TON AND INDUSTRY WILL SEEK ADDITIONAL 10,000 YEN. HE NOTED THAT OVERALL PROFIT PICTURE FOR JFY 1973 (APR 1, 1973 TO MAR 31, 1974) IS VERY GOOD AND THIS FACT COMPLICATES INDUSTRY PROBLEMS IN REQUESTING PRICE HIKE AT THIS TIME. IF ONLY FOURTH QUARTER FIGURES ARE CONSIDERED, HOWEVER, IT CAN BE DEMONSTRATED THAT SIGNIFICANT SEGMENT OF INDUSTRY OPERATING VERY CLOSE TO BREAK-EVEN POINT AND INDUSTRY WILL RELY ON THESE FIGURES WHEN APPROACHING GOJ. INAYAMA APPEARED CONFIDENT PRICE INCREASE WOULD BE GRANTED, BUT THAT SUCH ACTION BY GOJ WOULD HAVE TO WAIT UNTIL AFTER JUNE UPPER HOUSE ELECTIONS.

2. INAYAMA SAW IMPACT OF PRICE INCREASE ON JAPANESE COMPETITIVE POSITION AS MIXED. HE NOTED THAT PRICE

RISE WOULD ONLY BE FOR DOMESTIC USERS AND WOULD NOT APPLY TO EXPORT STEEL WHICH IS CURRENTLY AVERAGING 65,000 YEN PER TON, SOME 15,000 YEN MORE THAN DOMESTIC PRICE. THUS, THERE WOULD BE NO IMPACT ON STEEL EXPORTS. IMPACT ON SHIP BUILDING INDUSTRY WOULD NOT BE TOO GREAT SINCE, ACCORDING TO INAYAMA, CURRENT DELIVERY PRICE OF SHIP PLATE TO JAPANESE YARDS NOW RUNNING AROUND 41,000 YEN PER TON. THIS CONTRASTS WITH GERMAN YARDS WHICH ARE PAYING DOMESTIC PRODUCERS EQUIVALENT OF 70,000 YEN PER TON. HE EXPRESSED CONCERN OVER IMPACT OF STEEL PRICE INCREASE ON JAPAN'S HEAVY MACHINERY INDUSTRY. TO MAKE POINT, INAYAMA SAID THAT NIPPON STEEL IS PLANNING EXPANSION OF ITS HEAVY PLATE CAPACITY. FOR COMPARATIVE PURPOSES IT REQUESTED US BIDS ON PROJECT. MUCH TO JAPANESE SURPRISE, US MACHINERY FOB WAS SOME 20 PERCENT CHEAPER THAN SIMILAR JAPANESE MACHINERY. INAYAMA SAID THAT AT PRESENT PACKAGING, HANDLING, AND SHIPPING COSTS WOULD PROBABLY OFF-SET PRICE DIFFERENCE, BUT WHEN STEEL PRICES WENT UP AND WAGE HIKES BECAME EFFECTIVE, JAPANESE HEAVY MACHINERY MIGHT WELL LOSE ITS COMPETITIVE EDGE EVEN IN JAPAN.

3. TURNING TO PRODUCTION LEVELS IN JFY 1974 INAYAMA LIMITED OFFICIAL USE

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STATED IT WOULD BE VERY DIFFICULT TO MEET JFY 1973 LEVEL OF 120 MILLION TONS. HE SAID MITI WAS PUSHING FOR THIS LEVEL, BUT THAT INDUSTRY'S SAFE ESTIMATE OF JFY 1974 PRODUCTION IS 105 MILLION TONS AND, IF EVERYTHING WENT AS WELL AS POSSIBLE, LEVEL MIGHT REACH NEIGHBORHOOD OF 114 MILLION TONS. HE GAVE VERY TIGHT SITUATION WITH REGARD TO COKING COAL AS REASON FOR THIS SHORTFALL. DIVERSION IN US OF COKING COAL TO POWER

GENERATION USES HAD ALREADY CAUSED US SHIPPERS TO LOOK INTO REDUCTION OF SHIPMENTS :0 PERCENTELOI CONTRACT FIGURE. IN ADDITION, AUSTRALIA HAS HAD FLOODING IN MINING AREAS AND IT APPEARS UNLIKELY THAT IT WILL BE ABLE TO MEET AMOUNTS ALREADY CONTRACTED FOR, LET ALONE INCREASE AMOUNTS TO COVER US CUTBACK.

PRM FINALLY, TURNING TO US MARKET, HE NOTED THAT JAPANESE STEEL SHIPMENTS IN PAST YEAR HAD BEEN WELL BELOW AGREED LEVELS. HE GAVE PRICE FREEZE IN US WHICH RESULTED IN US IMPORTERS BIDDING \$70 TO \$80 A TON LESS THAN GOING PRICE IN OTHER EXPORT MARKETS AR REASON FOR THIS. HE SAW PICK UP IN EXPORTS TO US IN CURRENT YEAR, BUT BELIEVED THAT TOTALS WOULD STILL REMAIN BELOW LEVELS ACCEPTABLE TO US. EDMOND

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